

LESLIE COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS AND REPORT OF AUDIT

For the Year Ended June 30, 2016

LESLIE COUNTY SCHOOL DISTRICT

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For the Year Ended June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

State Committee for School District Audits
Members of Leslie County Board of Education
Hyden, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Leslie County School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the State Committee for School District Audits in the Kentucky Public School District's Audit Contract and Requirements. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Leslie County School District, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information and pension supplemental reporting on pages 4-9 and 45-47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Leslie County School District's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2016, on our consideration of the Leslie County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Leslie County School District's internal control over financial reporting and compliance.

A handwritten signature in blue ink, appearing to read "Chris Gooch".

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 1, 2016

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2016

As management of the Leslie County School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. This information should be considered in conjunction with the accompanying financial statements and disclosure following this section.

FINANCIAL HIGHLIGHTS

- The end of year cash balance was \$1,993,559. Of this amount, \$142,399 was deposited in separate activity fund checking accounts and \$212,499 was considered restricted. The beginning cash balance, for the District was \$1,845,070 including \$119,159 activity fund cash.
- Total federal expenditures as reflected on the schedule of expenditures of federal awards for year ended June 30, 2016 was \$3,496,033 and for June 30, 2015 was \$3,412,397.
- Interest revenue totaled \$14,132 for the current year ended and for the prior year the total interest revenue was \$9,661.
- The District's total long-term debt activity reflects new financing to refund prior 2006 and 2007 revenue bonds in the amount of \$6,125,000.
- The District entered into a financing agreement to purchase two school busses with Daimler Truck Financial for \$182,770 recognized as placed in service for fiscal year ended June 30, 2016. The terms are 10 year installment basis, annual interest rate of 2.66% and annual payments of \$21,566.10.
- The District's long-term debt reductions were \$7,413,310 for the fiscal year end, including reduction of Revenue Series 2006 by \$965,000 and Revenues Series 2007 by \$5,555,000.
- For 2015, excluding on-behalf payments of \$3,058,843, total general fund revenue was \$10,922,630 and total general fund expenditures were \$10,532,733, excluding on-behalf payments.
- Total 2016 general fund revenue was \$11,064,678 exclusive of on behalf state payments totaling \$2,839,855 consisting primarily of state program (SEEK), property, utilities and motor vehicle taxes. Excluding on behalf payments, there was \$11,298,101 in general fund expenditures, excluding on-behalf payments.

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2016

OVERVIEW OF FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary and fiduciary funds. Fiduciary funds include activity funds. Proprietary funds include the school food service, daycare and preschool funds. All other activities are reported under governmental funds.

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2016

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. As of June 30, 2016, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$9,374,399.

The greatest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and ongoing construction projects, where applicable), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net position for the year ended June 30, 2016

Following are comparisons of governmental net position:

	<u>At June 30,</u>	
	<u>2016</u>	<u>2015</u>
Current assets	2,536,536	2,397,889
Noncurrent assets	36,674,681	37,288,210
Deferred outflows of resources	854,728	408,862
<u>Total assets and deferred outflows of resources</u>	<u>40,065,945</u>	<u>40,094,961</u>
Current liabilities	2,875,850	2,960,997
Noncurrent liabilities	27,333,756	27,034,594
Deferred inflows of resources	481,940	342,000
<u>Total liabilities and deferred inflows of resources</u>	<u>30,691,546</u>	<u>30,337,591</u>
- Net position -		
Net investment in capital assets	12,785,891	12,094,537
Restricted	352,928	516,616
Unrestricted (deficit)	<u>(3,764,420)</u>	<u>(2,853,783)</u>
<u>Total net position</u>	<u>9,374,399</u>	<u>9,757,370</u>
<u>Total liabilities, deferred inflows of resources and net position</u>	<u>40,065,945</u>	<u>40,094,961</u>

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2016

The comparison reflects the following:

- Recognition of increase in deferred outflows of resources, deferred inflows of resources and net pension liabilities based on most recent audit and actuarial reports.
- Noncurrent liabilities and net position - deficit reflects the recognition of \$4,175,700 in CERS unfunded pension liabilities.

Comments on budget comparisons

The following table presents a comparison of budget to actual for the general fund:

	<u>Final</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
From local sources			
Taxes	3,238,887	3,143,441	(95,446)
Earnings on investments	6,000	11,553	5,553
Other local revenue	87,000	37,280	(49,720)
Intergovernmental - state	10,898,541	10,676,989	(221,552)
Intergovernmental - indirect federal	<u>25,000</u>	<u>35,270</u>	<u>10,270</u>
<u>Total revenues</u>	<u>14,255,428</u>	<u>13,904,533</u>	<u>(350,895)</u>
Expenditures:			
Instructional	7,449,638	7,467,245	(17,607)
Student support services	969,852	901,516	68,336
Staff support services	695,903	713,213	(17,310)
District administration	343,456	423,803	(80,347)
School administration	931,455	910,217	21,238
Business support	225,686	214,435	11,251
Plant operation and management	1,781,668	1,719,499	62,169
Student transportation	1,427,749	1,497,341	(69,592)
Community service activities	7,646	4,954	2,692
Employee benefits	76,203	118,581	(42,378)
Debt service	179,049	167,152	11,897
Contingency	<u>1,294,428</u>	<u>-</u>	<u>1,294,428</u>
<u>Total expenditures</u>	<u>15,382,733</u>	<u>14,137,956</u>	<u>1,244,777</u>
Excess (deficit) of revenue over expenditures	<u>(1,127,305)</u>	<u>(233,423)</u>	<u>893,882</u>

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2016

- Actual revenues and expenditures reflect state on-behalf payments for retirement, health and life insurance and technical education in the amount of \$2,839,855.
- General fund real property tax revenue was \$1,523,328 for the fiscal year ended exclusive of unmined mineral tax revenue of \$969,755.

The following table presents a summary comparison of statement of activities for the fiscal years ended June 30, 2016 and 2015:

	At June 30,	
	<u>2016</u>	<u>2015</u>
Revenues:		
Local revenue sources	4,246,667	4,109,151
State revenue sources	15,017,479	14,866,409
Federal revenue	<u>3,653,838</u>	<u>3,430,087</u>
<u>Total revenues</u>	<u>22,917,984</u>	<u>22,405,647</u>
Expenses:		
Instruction	11,649,430	10,534,575
Student support services	1,038,141	1,028,426
Instructional support	1,089,658	987,257
District administration	487,893	571,620
School administration	1,042,955	964,365
Business support	308,765	288,419
Plant operation and management	3,016,544	2,853,141
Student transportation	1,771,117	1,722,461
Community support and other	548,325	233,125
Food service operations	1,369,896	1,239,826
Interest on long-term debt	<u>978,231</u>	<u>688,193</u>
<u>Total expenses</u>	<u>23,300,955</u>	<u>21,111,408</u>
<u>Change in net position</u>	<u>(382,971)</u>	<u>1,294,239</u>

LESLIE COUNTY SCHOOL DISTRICT
HYDEN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

For the Year Ended June 30, 2016

- 2016 state revenue sources and related expenses reflect on-behalf adjustment recognition for the difference in the State's proportionate share of plan pension expense and on-behalf payments made by the State for the fiscal year.
- Depreciation expense was \$900,249 for the current year and \$995,970 for the prior year.

BUDGETARY IMPLICATIONS

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$1,294,428 in contingency (8.39%).

Results of the current fiscal year and recent historical trends for the District were taken into account when preparing the subsequent year budget. No significant changes in revenue or expense items are foreseeable. The District's tax rates and tax base remain effectively the same. The District has assessed and considered underlying economical and funding factors at the federal, state, and local level and other non-financial areas including demographics, local economy and risk of loss of student population that may have a significant impact on the financial statements when preparing subsequent years budgets.

Questions regarding this report should be directed to the Superintendent or the Finance Officer at (606) 672-2397.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF NET POSTIONAt June 30, 2016

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
- Current assets -			
Cash and cash equivalents	1,386,814	495,548	1,882,362
Accounts receivable:			
Taxes - current	85,908	-	85,908
Taxes - delinquent	12,439	-	12,439
Other	979	-	979
Intergovernmental - indirect federal	512,096	8,786	520,882
Prepaid items	-	-	-
Inventories	-	33,966	33,966
<u>Total current assets</u>	<u>1,998,236</u>	<u>538,300</u>	<u>2,536,536</u>
- Noncurrent assets -			
Bond discounts	108,916	-	108,916
Capital assets - non-depreciable	647,757	-	647,757
Capital assets - depreciable (net)	34,491,916	1,426,092	35,918,008
<u>Total noncurrent assets</u>	<u>35,248,589</u>	<u>1,426,092</u>	<u>36,674,681</u>
Deferred Outflows of Resources			
Deferred outflows - pension resources	761,648	93,080	854,728
<u>Total assets and deferred outflows of resources</u>	<u>38,008,473</u>	<u>2,057,472</u>	<u>40,065,945</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF NET POSTION (Continued)At June 30, 2016

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Liabilities:			
- Current liabilities -			
Cash deficit	31,202	-	31,202
Accounts payable	291,850	1,131	292,981
Current portion of KSBIT payable	62,994	-	62,994
Current portion of bond/lease obligations	1,394,141	-	1,394,141
Interest payable	633,634	-	633,634
Unearned revenues governmental sources	460,898	-	460,898
<u>Total current liabilities</u>	<u>2,874,719</u>	<u>1,131</u>	<u>2,875,850</u>
- Noncurrent liabilities -			
Long term portion of sick leave payable	444,553	-	444,553
Long term portion of KSBIT payable	503,957	-	503,957
Noncurrent portion of bond/lease obligations	21,918,675	-	21,918,675
Bond premiums	290,871	-	290,871
Net pension liability	3,720,966	454,734	4,175,700
<u>Total noncurrent liabilities</u>	<u>26,879,022</u>	<u>454,734</u>	<u>27,333,756</u>
<u>Total liabilities</u>	<u>29,753,741</u>	<u>455,865</u>	<u>30,209,606</u>
Deferred Inflows of Resources:			
Deferred inflows of resources - pension related	429,457	52,483	481,940
Net position:			
Net investment in capital assets	11,359,799	1,426,092	12,785,891
Restricted for:			
Sick leave	229,896	-	229,896
Other	-	123,032	123,032
Unrestricted (deficit)	(3,764,420)	-	(3,764,420)
<u>Total net position</u>	<u>7,825,275</u>	<u>1,549,124</u>	<u>9,374,399</u>
<u>Total liabilities, deferred inflow of resources and net position</u>	<u>38,008,473</u>	<u>2,057,472</u>	<u>40,065,945</u>

See notes to financial statements.

12.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

		Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
	<u>Expenses</u>			
FUNCTIONS/PROGRAMS:				
- Governmental activities -				
Instructional	11,649,430	-	(7,681,157)	-
Support services:				
Student	1,038,141	-	(892,621)	-
Instructional staff	1,089,658	-	(567,703)	-
District administration	487,893	-	(65,450)	-
School administration	1,042,955	-	(698,993)	-
Business support	308,765	-	(270,639)	-
Plant operation and maintenance	3,016,544	-	(429,641)	-
Student transportation	1,771,117	-	(862,171)	-
Community services operations	263,420	-	(227,308)	-
Other	284,905	-	-	-
Interest on long-term debt	978,231	-	-	-
<u>Total governmental activities</u>	<u>21,931,059</u>	<u>-</u>	<u>(11,695,683)</u>	<u>-</u>
- Business-type activities -				
Food service	1,301,050	(149,055)	(1,273,379)	-
<u>Total business-type activities</u>	<u>1,301,050</u>	<u>(149,055)</u>	<u>(1,273,379)</u>	<u>-</u>
<u>Total primary government</u>	<u>23,232,109</u>	<u>(149,055)</u>	<u>(12,969,062)</u>	<u>-</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF ACTIVITIES (continued)For the Year Ended June 30, 2016

	<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
	(3,968,273)	-	(3,968,273)
	(145,520)	-	(145,520)
	(521,955)	-	(521,955)
	(422,443)	-	(422,443)
	(343,962)	-	(343,962)
	(38,126)	-	(38,126)
	(2,586,903)	-	(2,586,903)
	(908,946)	-	(908,946)
	(36,112)	-	(36,112)
	(284,905)	-	(284,905)
	<u>(978,231)</u>	<u>-</u>	<u>(978,231)</u>
	<u>(10,235,376)</u>	<u>-</u>	<u>(10,235,376)</u>
	<u>-</u>	<u>121,384</u>	<u>121,384</u>
	<u>-</u>	<u>121,384</u>	<u>121,384</u>
	<u>(10,235,376)</u>	<u>121,384</u>	<u>(10,113,992)</u>
General revenues and transfers:			
Taxes	3,684,375	-	3,684,375
Investment earnings	11,553	2,579	14,132
State and formula grants	5,699,676	-	5,699,676
Miscellaneous	332,838	-	332,838
Transfers in (out)	<u>68,846</u>	<u>(68,846)</u>	<u>-</u>
<u>Total general revenues and transfers</u>	<u>9,797,288</u>	<u>(66,267)</u>	<u>9,731,021</u>
Change in net position	(438,088)	55,117	(382,971)
Net position - beginning (restated)	<u>8,263,363</u>	<u>1,494,007</u>	<u>9,757,370</u>
Net position - ending	<u><u>7,825,275</u></u>	<u><u>1,549,124</u></u>	<u><u>9,374,399</u></u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS

At June 30, 2016

	General	Special Revenue	Construction	Debt Service	Other Governmental	Total Governmental
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>
Assets and resources:						
Cash and cash equivalents	1,143,113	-	203,021	-	9,478	1,355,612
Accounts receivable:						
Taxes - current	85,908	-	-	-	-	85,908
Taxes - delinquent	12,439	-	-	-	-	12,439
Other	979	-	-	-	-	979
Intergovernmental - indirect federal	<u>2,303</u>	<u>509,793</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>512,096</u>
<u>Total assets and resources</u>	<u>1,244,742</u>	<u>509,793</u>	<u>203,021</u>	<u>-</u>	<u>9,478</u>	<u>1,967,034</u>
Liabilities:						
Cash deficit	-	31,202	-	-	-	31,202
Accounts payable	232,040	17,693	7,400	-	3,515	260,648
Advances from grantors	<u>-</u>	<u>460,898</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>460,898</u>
<u>Total liabilities</u>	<u>232,040</u>	<u>509,793</u>	<u>7,400</u>	<u>-</u>	<u>3,515</u>	<u>752,748</u>
Fund balance						
Restricted - sick	25,765	-	-	-	-	25,765
Restricted - other	-	-	195,621	-	5,963	201,584
Assigned fund balance	28,312	-	-	-	-	28,312
Unassigned fund balance (deficit)	<u>958,625</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>958,625</u>
<u>Total fund balances</u>	<u>1,012,702</u>	<u>-</u>	<u>195,621</u>	<u>-</u>	<u>5,963</u>	<u>1,214,286</u>
<u>Total liabilities, deferred inflow of resources and fund balances</u>	<u>1,244,742</u>	<u>509,793</u>	<u>203,021</u>	<u>-</u>	<u>9,478</u>	<u>1,967,034</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTRECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITIONAt June 30, 2016

Total fund balances per fund financial statements	1,214,286
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Amounts reported for governmental activities in the statement of net position are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but are reported in the statement of net position.	35,139,673
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Discounts on bonds are not recognized in fund financial statements	108,916
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Deferred outflows on refunded debt and pension resources are reported in government wide financial statements but not in fund financial statements.	761,648
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Long-term sick leave payable is not recognized in the fund financial statements.	(444,553)
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Certain liabilities (such as bonds payable and KSBIT payable are not reported in this fund financial statement because they are not due and payable, and related interest, but are presented in the statement of net position.	(24,513,401)
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Net pension obligations are not due and payable in the current period, and therefore, are not reported in the fund financial statements.	(3,720,966)
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Premiums on bonds are not recognized in fund financial statements.	(290,871)
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Deferred inflows of resources related to pensions are not reported in the fund financial statements.	(429,457)
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Net position for governmental activities	<u><u>7,825,275</u></u>
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See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

For the Year Ended June 30, 2016

	General <u>Fund</u>	Special Revenue <u>Funds</u>	Construction <u>Fund</u>	Debt Service <u>Fund</u>	Other Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:						
From local sources:						
Taxes	3,143,441	-	-	-	540,934	3,684,375
Earnings on investments	11,553	-	-	-	-	11,553
Other local revenue	37,280	283,134	-	-	5,549	325,963
Intergovernmental - state	10,676,989	978,137	-	704,889	745,155	13,105,170
Intergovernmental - indirect federal	35,270	2,345,189	-	-	-	2,380,459
<u>Total revenues</u>	<u>13,904,533</u>	<u>3,606,460</u>	<u>-</u>	<u>704,889</u>	<u>1,291,638</u>	<u>19,507,520</u>
Expenditures:						
Instructional	7,467,245	2,730,234	-	-	12,754	10,210,233
Student support services	901,516	4,500	-	-	-	906,016
Staff support services	713,213	236,091	-	-	1,672	950,976
District administration	423,803	-	-	-	-	423,803
School administration	910,217	-	-	-	-	910,217
Business support	214,435	53,612	-	-	-	268,047
Plant operations and maintenance	1,719,499	136,657	-	-	-	1,856,156
Student transportation	1,497,341	115,107	-	-	-	1,612,448
Community service activities	4,954	224,940	-	-	-	229,894
Other operating expenses	-	2,368	-	-	-	2,368
Employee benefits	118,581	-	-	-	-	118,581
Capital outlay	-	-	180,683	-	-	180,683
Debt service:						
Principal	98,139	-	-	1,190,171	-	1,288,310
Interest	69,013	-	-	714,324	-	783,337
<u>Total expenditures</u>	<u>14,137,956</u>	<u>3,503,509</u>	<u>180,683</u>	<u>1,904,495</u>	<u>14,426</u>	<u>19,741,069</u>
Excess (deficit) of revenues over expenditures	<u>(233,423)</u>	<u>102,951</u>	<u>(180,683)</u>	<u>(1,199,606)</u>	<u>1,277,212</u>	<u>(233,549)</u>
Other financing sources (uses):						
Bond proceeds and other debt financing	182,770	-	-	6,125,000	-	6,307,770
Bond refunding	-	-	-	(6,125,000)	-	(6,125,000)
Gain (loss) on disposal of assets	6,875	-	-	-	-	6,875
Operating transfers in	169,683	40,463	328,000	1,199,606	-	1,737,752
Operating transfers out	(239,403)	(143,414)	-	-	(1,286,089)	(1,668,906)
<u>Total other financing sources (uses)</u>	<u>119,925</u>	<u>(102,951)</u>	<u>328,000</u>	<u>1,199,606</u>	<u>(1,286,089)</u>	<u>258,491</u>
Changes in fund balance	(113,498)	-	147,317	-	(8,877)	24,942
Fund balance - July 1, 2015	<u>1,126,200</u>	<u>-</u>	<u>48,304</u>	<u>-</u>	<u>14,840</u>	<u>1,189,344</u>
Fund balance - June 30, 2016	<u>1,012,702</u>	<u>-</u>	<u>195,621</u>	<u>-</u>	<u>5,963</u>	<u>1,214,286</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTRECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIESFor the Year Ended June 30, 2016

Net change in total fund balances per fund financial statements	24,942
Amounts reported for governmental activities in the statement of activities differences:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense.	
Capital outlays reported in fund financial statements	348,234
Depreciation recorded in government wide financial statements	(900,249)
Interest expense on long-term debt is recognized in the fund financial statements when paid and accrued in the government wide financial statements of activities.	(248,830)
Accrued sick leave is recognized when incurred in the fund financial statements.	(102,956)
Amortization expense on refunded debt is not recognized in the fund financial statements.	(7,064)
Bond principal and other debt service payments are recognized as expenditures of current financial resources in the fund financial statements but are reductions of liabilities in the statement of net position.	7,476,304
Bond proceeds are reflected as current financial resources in the fund financial statements but are stated as liabilities in the government wide financial statements.	(6,307,770)
Governmental funds report district pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.	
District pension contributions	<u>(720,699)</u>
Change in net position of governmental activities	<u><u>(438,088)</u></u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF NET POSITION – PROPRIETARY FUNDSAt June 30, 2016

-	Food Service <u>Fund</u>
Assets:	
- Current Assets -	
Cash and cash equivalents	495,548
Accounts receivable:	
Intergovernmental - indirect federal	8,786
Inventories	<u>33,966</u>
<u>Total current assets</u>	<u>538,300</u>
- Noncurrent Assets -	
Depreciable capital assets	2,464,056
Less: accumulated depreciation	<u>(1,037,963)</u>
<u>Total noncurrent assets</u>	<u>1,426,093</u>
Deferred Outflows of Resources	
Deferred outflows - pension resources	<u>93,079</u>
<u>Total assets and deferred outflow of resources</u>	<u><u>2,057,472</u></u>
Liabilities:	
- Current Liabilities -	
Accounts payable	<u>1,131</u>
<u>Total current liabilities</u>	<u>1,131</u>
- Noncurrent liabilities -	
Net pension liability	<u>454,734</u>
<u>Total liabilities</u>	<u>455,865</u>
Deferred Inflow of Resources	<u>52,483</u>
Net position:	
Net investment in capital assets	1,426,092
Restricted	<u>123,032</u>
<u>Total net position</u>	<u>1,549,124</u>
<u>Total liabilities, deferred inflow of resources and net position</u>	<u><u>2,057,472</u></u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION – PROPRIETARY FUNDSFor the Year Ended June 30, 2016

	<u>Food service Fund</u>
Operating revenues:	
Lunchroom sales	149,055
State revenue	12,712
On-behalf contributions:	
Kentucky Department of Education	136,525
Commodities	69,133
Federal revenue	<u>1,055,009</u>
 <u>Total operating revenues</u>	 <u>1,422,434</u>
Operating expense:	
Salaries and wages	686,055
Contract services	21,877
Materials and supplies	525,237
Depreciation	<u>67,881</u>
 <u>Total operating expenses</u>	 <u>1,301,050</u>
 <u>Operating income (loss)</u>	 <u>121,384</u>
Nonoperating revenue/(expense):	
Interest income	2,579
Transfers in (out)	<u>(68,846)</u>
 <u>Total nonoperating revenue/(expense)</u>	 <u>(66,267)</u>
 <u>Change in net position</u>	 55,117
Net position, July 1, 2015, restated	<u>1,494,007</u>
Net position, June 30, 2016	<u><u>1,549,124</u></u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF CASH FLOWS – PROPRIETARY FUNDSFor the Year Ended June 30, 2016

	<u>Food Service Fund</u>
Cash flows from operating activities:	
Cash received from:	
Lunchroom sales	149,055
State revenue	12,712
Federal revenue	1,046,847
Cash paid to/for:	
Employees	(549,528)
Supplies/Contractual	(478,660)
	<u>180,426</u>
<u>Net cash provided (used) by operating activities</u>	<u>180,426</u>
Cash flows from capital and related financing activities:	
Changes in capital assets	(5,263)
	<u>2,579</u>
Cash flows from investing activities:	
Interest income	2,579
	<u>68,846</u>
Cash flows from financing activities:	
Indirect costs transfer	(68,846)
Pensions and related deferrals	88,072
Total cash flows from financing activities	<u>19,226</u>
Net increase (decrease) in cash	196,968
Cash, beginning of year	<u>298,580</u>
Cash, end of year	<u><u>495,548</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operations:	
Operating income (loss)	121,384
Adjustments to reconcile operating income to cash provided (used) by operating activities:	
Depreciation	67,881
Changes in current assets/liabilities:	
Accounts receivable	(8,162)
Prepaid items	444
Inventories	(2,255)
Accounts payable	1,134
Net cash provided (used) by operating activities	<u><u>180,426</u></u>

Noncash transactions include \$136,525 on-behalf payments recognized for the school food service program from Kentucky Department of Education, \$69,133, donated commodities and the net effect of net pension liabilities and deferrals attributed to School Food Service fund, \$88,075.

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF FIDUCIARY NET POSITION – ACTIVITY FUNDSAt June 30, 2016**Assets:**

Cash and cash equivalents	142,399
Accounts receivable	<u>5,169</u>
<u>Total assets</u>	<u>147,568</u>

Liabilities:

Accounts payable	-
Due to individual student activity account funds	<u>147,568</u>
<u>Total liabilities</u>	<u>147,568</u>

Net position:

Restricted	<u>-</u>
<u>Total liabilities and net position</u>	<u>147,568</u>

See notes to financial statements.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTSJune 30, 2016NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Leslie County Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Leslie County School District (District). The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding sources entities. However, the Board is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence, operations and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Leslie County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment or the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Leslie County School District Finance Corporation – On September 11, 1990, the Leslie County, Kentucky, Board of Education resolved to authorize the establishment of the Leslie County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Leslie County Board of Education also comprise the Corporations’ Board of Directors.

Basis of Presentation

Government-wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)Basis of Presentation (continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total position. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue Grant Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report. This is a major fund of the District.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)Basis of Presentation (continued)I. Governmental Fund Types (continued)

- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Funds).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the District's facility plan.
2. The Facility Support Program of Kentucky Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund.

- (C) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

- (D) The District-wide activity fund accounts for expenditures primarily instructional in nature.

II. Proprietary Funds (Enterprise Funds)

The School Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). The School Food Service Fund is a major fund.

III. Fiduciary Fund Types (includes agency and trust funds)

The Activity Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with Uniform Program of Accounting for School Activity Funds.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Inflows of Resources and Deferred Outflows of Resources – A deferred inflow of resources is an acquisition of net position by the District that is applicable to a future reporting period. A deferred outflow of resources is a consumption of net position by the District that is applicable to a future reporting period. On governmental fund financial statements, receivables that will not be collected within the available period have been reported as deferred inflows of resources. On the accrual basis of accounting, unamortized deferred charges on debt refunding is reported as a deferred outflow of resources.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and change in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred inflows.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)Property Taxes (continued)

The property tax rates assessed for the year ended June 30, 2016, to finance the General Fund operations were \$.644 per \$100 valuation for real property, \$.644 per \$100 valuation for business personal property and \$.474 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of five thousand dollars. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are expensed as incurred.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

Compensated absence liabilities are recorded based on balances for classified and certified employees with twenty-seven or more years of experience at June 30, 2016.

For governmental fund financial statements the portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These balances are recorded in the account "accumulated sick leave payable" in the government-wide financial statements. A reserve for accumulated sick leave at June 30, 2016 reflected a balance of \$25,765.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Cash and other assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation. Restricted assets represent amounts required by State statute to be set aside for the acquisition and construction of capital improvements.

Inventories

Supplies and materials are charged to expenditures when purchased.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)Accrued Liabilities and Long-Term Obligations (continued)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Position

GASB 63, implemented for the previous fiscal year, has changed the presentation of the District's financial statements to incorporate the concepts of net position, deferred outflows of resources and deferred inflows of resources. Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. The net position component "investment in capital assets", consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt also should be included in this component of net position. Net position is reported as restricted when there are limitations on its use either through the enabling legislation adopted by the District or through external restrictions imposed by the creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Recently Issued Accounting Pronouncements

GASB Statement No. 66, *Technical Corrections* - 2012; an Amendment of GASB Statements No. 10 and No. 62, effective for periods beginning after December 15, 2012, resolves conflicting accounting and reporting guidance that could diminish consistent financial reporting and enhance the usefulness of financial reports. The District implemented the new requirements for the fiscal year 2013-2014 financial statements.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE A – REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)Recently Issued Accounting Pronouncements (continued)

The District implemented GASB Statement 65 which establishes accounting and financial reporting standards that reclassify certain assets and liabilities as deferred outflows of resources or deferred inflows of resources provides changes in the determination of the major fund calculations and limiting the use of “deferred” in financial statements presentations.

GASB Statements Nos. 67 and 68, *Accounting and Financial Reporting for Pensions* – an amendment of GASB Statement 27 and GASB Statement No. 71 improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decisions-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014 and has been implemented by the District.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District’s management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

At year-end, the bank balance of the District’s cash and cash equivalents was \$2,655,393. Of the total cash balance, \$250,000 was covered by Federal depository insurance and the balance was covered by a collateral agreement and collateral held by the pledging banks’ trust departments in the District’s name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2016 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Hyden Citizens Bank:		
General Operating Account	2,501,868	1,819,465
Hayes Lewis Elementary	23,760	20,967
Mountain View Elementary	20,329	20,329
Leslie County High School	70,628	65,243
Stinnett Elementary	27,809	25,789
WB Muncy Elementary	10,815	10,071
Cash register lunchrooms:	-	309
US Bank:		
Construction account	184	184
<u>Total</u>	<u>2,655,393</u>	<u>1,962,357</u>

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

NOTE C – CASH AND CASH EQUIVALENTS (continued)

Custodial credit risk is the risk that in event of bank failure the deposits may not be returned or that the District may not recover collateral securities. The District requires deposits to be secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance (FDIC). Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The District does not retain any long-term investments. Concentrations of credit risk are the risk of loss attributed to the magnitude of the District's investments in a single issuer. All of the organization's cash is held primarily at a local financial institution. Some of the primary risks associated with these funds: a major change in interest rates; a default on a security or repurchase agreement held by the fund; proceeds from sales of collateral are less than the agreed-upon purchase price. Foreign currency risk is the risk of changes in exchange rates affecting foreign investments. The District does not hold any foreign investments.

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the School District Finance Corporation.

The original amount of each issue, the issue date and interest rates are summarized as follows:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
Revenue Series, September 1996	\$ 240,000	5.00% - 5.375%
Revenue Series, September 2006	1,520,000	3.75% - 4.000%
Revenue Series, July 2007	8,500,000	3.70% - 4.125%
KISTA Series 2008	236,521	3.00% - 3.750%
Revenue Series, August 2009	1,200,000	1.70 % - 4.20%
Refunding Series 2009R	283,755	1.00% - 3.30%
Revenue Series, July 2011	2,425,000	1.00% - 4.25%
Revenue Series, December 2011	7,515,000	2.00% - 3.375%
QSCB Series, December 2011	4,036,000	5.00% - 5.00%
KISTA Series 2012	345,780	2.00% - 2.625%
Revenue Series 2012A	1,355,000	1.00% - 3.75%
Revenue Series 2012B	1,830,000	1.00% - 3.00%
KISTA Series 2014	165,607	2.00% - 3.00%
KISTA Series 2015	192,338	1.00% - 2.625%
Refunding Series April 1, 2016	6,125,000	3.00% - 3.00%

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund and Building Fund) is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Leslie County Fiscal Court and the School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 1990, the District entered into “participation agreements” with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The Leslie County School District Finance Corporation issued, \$6,125,000, Refunding Revenue Bonds, dated April 1, 2016, to refund 2006 and 2007 revenue bonds. The total savings as a result of the issue is \$451,577.

Debt issue costs are recognized as expenditures when incurred in governmental funds, government-wide and proprietary fund types financial statements.

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations for the district, including amounts to be paid by the Commission, at June 30, 2016, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Leslie County School District</u>		<u>Kentucky School Facilities Construction Commission</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2016 - 17	756,334	476,833	500,879	156,801	1,890,847
2017 - 18	770,996	483,903	478,669	166,533	1,900,101
2018 - 19	749,264	459,483	495,013	150,502	1,854,262
2019 - 20	762,473	430,827	505,415	135,564	1,834,279
2020 - 21	768,421	401,852	493,882	120,629	1,784,784
2021 - 26	3,966,761	1,526,630	2,708,105	367,763	8,569,259
2026 - 31	4,558,261	664,307	1,016,739	37,734	6,277,041
2031 - 33	<u>1,256,079</u>	<u>30,614</u>	<u>28,921</u>	<u>823</u>	<u>1,316,437</u>
<u>Totals</u>	<u>13,588,589</u>	<u>4,474,449</u>	<u>6,227,623</u>	<u>1,136,349</u>	<u>25,427,010</u>

The District acquired two new school buses and entered into a school bus purchase financing agreement with Daimler Truck Financial for \$182,770 recognized as placed in service for fiscal year ended June 30, 2016. The terms are 10 year installment basis, annual interest rate of 2.66% and annual payments of \$21,566.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

Leslie County School District Finance Corporation issued Qualified School Construction Bonds, taxable series dated December 1, 2011 having a par amount of \$4,036,000. Of this amount \$3,985,909 of the proceeds were deposited directly to the construction fund for assistance in new building facilities and renovation for an elementary school. Total bond issue costs were \$10,700. The bond was issued at a discount of \$39,391.

\$100,900 semi-annual interest payments are due every June and December through December 1, 2030. A federal tax credit for the same amount has been granted for each bondholder resulting in a subsidy/federal on-behalf payment for the School District. The action is a result of creation of qualified school construction bonds under the American Recovery and Reinvestment Act. The Act allows deferral of principal payments for up to 17 years and the creation of an escrow account as noted above. The bonds provide federal tax credits for bondholders in lieu of interest in order to significantly reduce the issuer's cost of borrowing. The OMB Compliance Supplement acknowledges Qualified School Construction Bonds passed through the U.S. Department of Education are not covered by the single audit requirements and are not required to be included in the Schedule of Federal Awards.

	QSCB Series 2011 Escrow Payment		Expected Escrow Earnings	QSCB Series 2011 Interest	
	<u>Board</u>	<u>KSFCC</u>		<u>Total</u>	<u>Tax Credit</u>
2013	128,595	41,484	4,077	201,800	(201,800)
2014	127,675	42,404	8,254	201,800	(201,800)
2015	127,776	42,303	12,564	201,800	(201,800)
2016	127,863	42,216	16,955	201,800	(201,800)
2017	127,909	42,170	21,452	201,800	(201,800)
2018	127,950	42,129	26,203	201,800	(201,800)
2019	128,013	42,066	30,690	201,800	(201,800)
2020	128,101	41,978	35,504	201,800	(201,800)
2021	131,456	38,623	40,546	201,800	(201,800)
2022	131,455	38,624	45,610	201,800	(201,800)
2023	131,455	38,624	50,796	201,800	(201,800)
2024	131,456	38,623	56,263	201,800	(201,800)
2025	131,456	38,623	61,376	201,800	(201,800)
2026	131,456	38,623	67,123	201,800	(201,800)
2027	131,456	38,623	72,816	201,800	(201,800)
2028	131,456	38,623	78,655	201,800	(201,800)
2029	131,456	38,623	85,109	201,800	(201,800)
2030	128,392	41,687	90,507	201,800	(201,800)
2031	128,654	41,424	-	(100,900)	(100,900)
Subtotal	2,464,030	767,470	804,500	3,531,500	(3,733,300)
Realized	<u>(511,909)</u>	<u>(168,407)</u>	<u>(41,850)</u>	<u>(807,200)</u>	<u>807,200</u>
Future	<u>1,952,121</u>	<u>599,063</u>	<u>762,650</u>	<u>2,724,300</u>	<u>(2,926,100)</u>
Principal payment due 12/1/2030			<u>4,036,000</u>		

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

NOTE D – LEASE OBLIGATIONS AND BONDED DEBT (continued)

Following are changes in long-term debt:

	Balance			Balance	Current
	<u>July 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2016</u>	<u>Principal</u>
Revenue Series Sept 1996	35,000	-	20,000	15,000	15,000
Revenue Series Sept 2006	1,040,000	-	965,000	75,000	75,000
Revenue Series July 2007	6,385,000	-	5,555,000	830,000	405,000
KISTA Series 2008	70,739	-	25,648	45,091	22,132
Bonds Series 2009	1,005,000	-	50,000	955,000	50,000
KISTA Refunding Series 2009R	130,185	-	23,137	107,048	2,447
Revenue Series June 2011	2,140,000	-	80,000	2,060,000	80,000
QSCB Series December 2011	3,500,868	-	187,034	3,313,834	191,531
Revenue Series December 2011	6,605,000	-	310,000	6,295,000	320,000
KISTA Series 2012	236,544	-	33,355	203,189	34,020
Revenue Series April 2012	1,220,000	-	60,000	1,160,000	11,203
Revenue Bonds December 2012	1,710,000	-	65,000	1,645,000	65,000
KISTA Series 2014	147,682	-	18,287	129,395	15,692
KISTA Series 2015	192,338	-	20,849	171,489	20,922
Refunding Series April 2016	-	6,125,000	-	6,125,000	70,000
Daimler Truck Financial	-	182,770	-	182,770	21,566
<u>Total</u>	<u>24,418,356</u>	<u>6,307,770</u>	<u>7,413,310</u>	<u>23,312,816</u>	<u>1,399,513</u>

NOTE E – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016 was as follows:

	Balance			Balance
	<u>July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2016</u>
<u>Governmental Activities</u>				
Land	647,757	-	-	647,757
Land improvements	300,911	-	-	300,911
Buildings and improvements	33,165,431	-	-	33,165,431
Technology equipment	250,233	13,028	90,000	173,261
Vehicles	3,178,796	182,770	540,578	2,820,988
General equipment	103,627	-	8,785	94,842
Construction work in progress	11,401,548	152,436	-	11,553,984
<u>Totals at historical cost</u>	<u>49,048,303</u>	<u>348,234</u>	<u>639,363</u>	<u>48,757,174</u>
Less: accumulated depreciation				
Land and improvements	294,690	2,415	-	297,105
Buildings and improvements	10,244,370	777,522	-	11,021,892
Technology equipment	243,246	2,289	90,000	155,535
Vehicles	2,480,492	116,027	540,578	2,055,941
General equipment	93,817	1,996	8,785	87,028
<u>Total accumulated depreciation</u>	<u>13,356,615</u>	<u>900,249</u>	<u>639,363</u>	<u>13,617,501</u>
<u>Governmental Activities</u>				
<u>Capital Assets - Net</u>	<u>35,691,688</u>	<u>(552,015)</u>	<u>-</u>	<u>35,139,673</u>

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE E – CAPITAL ASSETS (continued)

Capital asset activity for the fiscal year ended June 30, 2016 was as follows (continued):

	Balance <u>July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2016</u>
<u>Business-Type Activities</u>				
Buildings and improvements	1,996,576	-	-	1,996,576
Food service and equipment	<u>462,217</u>	<u>5,263</u>	-	<u>467,480</u>
<u>Totals at historical cost</u>	<u>2,458,793</u>	<u>5,263</u>	-	<u>2,464,056</u>
Less: accumulated depreciation				
Buildings and improvements	687,894	38,883	-	726,777
Food service and equipment	<u>282,188</u>	<u>28,998</u>	-	<u>311,186</u>
<u>Total accumulated depreciation</u>	<u>970,082</u>	<u>67,881</u>	-	<u>1,037,963</u>
Business-Type Activities				
<u>Capital Assets - Net</u>	<u>1,488,711</u>	<u>(62,618)</u>	-	<u>1,426,093</u>

Depreciation expense was allocated to governmental and proprietary functions as follows:

Governmental functions:

Instructional	4,337
District administration	1,995
Business support services	1,421
Plant operations and maintenance	776,469
Student transportation	<u>116,027</u>
Total depreciation expense - Governmental functions	<u>900,249</u>

Proprietary functions:

Food service operations	<u>67,881</u>
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NOTE F – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for equipment provide the minimum future rental payments as of June 30, 2016, as follows:

Year ending June 30:	
2017	239,601
2018	239,601
2019	204,576
2020	143,700
2021	<u>71,850</u>
<u>Total</u>	<u>899,328</u>

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

NOTE G – RETIREMENT PLANS

Kentucky Teachers Retirement System:

Summary of Significant Accounting Policies

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teachers' Retirement System of the State of Kentucky (KTRS) and additions to/deductions from KTRS's fiduciary net position have been determined on the same basis as they are reported by KTRS. For this purposes, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

General Information about the Pension Plan

Plan Description – Teaching-certified employees of the Leslie County School District are provided pensions through the Teachers' Retirement System of the State of Kentucky (KTRS)-a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS issues a publicly available financial report that can be obtained at http://www.ktrs.ky.gov/05_publications/index.htm.

Benefits Provided – For members who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New members (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. In addition, members who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for members hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Members at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. KTRS also provides disability benefits for vested members at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing members and \$5,000 for retired or disabled members.

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Contributions – Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university members are required to contribute 12.105% of their salaries to the System. University members are required to contribute 9.895% of their salaries. KRS 161.580 allows each university to reduce the contribution of its members by 2.215%; therefore, university members contribute 7.68% of their salary to KTRS.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016**NOTE G – RETIREMENT PLANS (continued)**

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions of the amount 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. University employers contribute 15.36% of salaries for members. For local school district and regional cooperative members whose salaries are federally funded, the employer contributes 15.355% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

Medical Insurance Plan

Plan Description – In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide post-employment healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy – In order to fund the post-employment healthcare benefit, six percent (6.00%) of the gross annual payroll of members before July 1, 2008 is contributed. Three percent (3.00%) is paid by member contributions and three quarters percent (.75%) from state appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions:

At June 30, 2016, Leslie County School District did not report a net pension liability for its proportionate share of the net pension liability because the State of Kentucky provides the pension support directly to KTRS on behalf of the District. The total portion of the net pension liability that was associated with the District was as follows:

State's proportionate share of the	
net pension liability associated with the	
District	<u>\$ 52,910,151</u>

The net pension liabilities were measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2015, the District's proportionate share was .2274% for KTRS.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE G – RETIREMENT PLANS (continued)

For the year ended June 30, 2016, the District's government-wide financial statements reported KTRS pension expense of \$3,003,984. The District recognized no deferred outflows of resources and no deferred inflows of resources related to KTRS.

Actuarial assumptions – The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Significant assumptions used in the KTRS valuation were as follows:

- Investment rate of return – 7.5%, net of pension plan investment expense, including inflation.
- Projected salary increases – 4.00 – 8.20%, including inflation
- Inflation rate – 3.5%
- Municipal bond Index Rate – 3.82%
- Single Equivalent Interest Rate – 4.88%

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016.

The long term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS' investment consultants is summarized in the following table:

<u>Asset Class</u>	<u>KTRS Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
	100.0%	

Discount rate – The discount rate used to measure the total pension liability as of the measurement date was 4.88%. The projection of cash flows used to determine the discount rate was performed in accordance with GASB 67 and assumed that plan member contributions will be made at the current contribution rates and the Employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2039 plan year and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). There was a change in the Municipal Bond Index Rate from the Prior Measurement Date to the Measurement Date, so as required under GASB 68, the SEIR at

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

NOTE G – RETIREMENT PLANS (continued)

the Measurement Date of 4.88% was calculated using the Municipal Bond Index Rate as of the Measurement Date (3.82%). This change in the discount rate is considered a change in actuarial assumptions or other inputs under GASB 68.

The following table presents the net pension liability –proportionate share, calculated using the discount rate of 4.88%, as well as what the Commonwealth’s net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.88%) or 1 percentage point higher (5.88%) than the current rate:

	<u>Decrease</u> <u>(3.88%)</u>	<u>Discount Rate</u> <u>(4.88%)</u>	<u>Increase</u> <u>(5.88%)</u>
Commonwealth's proportionate share of			
District pension liability	\$ 67,546,369	\$ 52,910,151	\$ 42,200,148

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued KTRS financial report.

County Employees Retirement System

Plan Description: Substantially all full-time classified employees of the District participate in the County Employees Retirement System (CERS). CERS is a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky General Assembly. The plan covers substantially all regular full-time members employed in non-hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in the plan. The plan provides for retirement, disability and death benefits to plan members.

CERS issues a publicly available financial report included in the Kentucky Retirement Systems Annual Report that includes financial statements and the required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling (505) 564-4646 or at <https://kyret.ky.gov>.

Benefits Provided - Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the plan documents.

Contributions - Funding for the plan is provided through payroll withholdings of 5.00% except for new hires on or after September 1, 2008 with payroll withholding of 6.00% and a district contribution of 17.06% of the employee’s total compensation subject to contributions.

At June 30, 2016, the District reported the following for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used was based on an actuarial valuation as of June 30, 2015. At June 30, 2015 the District’s proportion of the net pension liability based on contributions to CERS during fiscal year ended June 30, 2014 was .09712%.

District's proportionate share of the net	
CERS pension liability	<u>\$ 4,175,700</u>

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

NOTE G – RETIREMENT PLANS (continued)

For the year ended June 30, 2016, the District's government-wide financial statements CERS pension expense of \$498,307. For the year ended June 30, 2016 the District recognized deferred outflows of resources, \$564,761, CERS, and deferred inflows of resources, CERS, \$208,340. These contributions will be recognized as a reduction of the net pension liability in the year ended June 30, 2016.

The District previously reported deferred inflows of resources related to pensions from the net difference between projected and actual earnings on pension plan investments in the amount of \$342,000. This will be recognized as pension expense as follows:

	Year	Total
	2016	68,400
	2017	68,400
	2018	68,400
	2019	68,400
	2020	<u>68,400</u>
		<u><u>342,000</u></u>
	Deferred Outflows of	Deferred Inflows of
	Resources	Resources
Differences between expected and actual experience	34,702	-
Changes of assumptions	421,074	-
Net difference between projected and actual earnings on pension plan investments	37,431	-
Changes in proportion and differences between District contributions and proportionate share of contributions	71,554	-
District contributions subsequent to the measurement date	<u>-</u>	<u>-</u>
Total	<u><u>564,761</u></u>	<u><u>-</u></u>

Actuarial Methods and Assumptions - The total pension liability for CERS was determined by applying procedures to the actuarial valuation as of June 30, 2015. The financial reporting actuarial valuation as of June 30, 2015, used the following actuarial methods and assumptions, applied to all prior periods included in the measurement:

- Valuation date, June 30, 2015
- Experience study – July 1, 2008 – June 30, 2013
- Actuarial Cost method – Entry Age Normal
- Amortization Method – Level percentage of payroll, closed

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

Actuarial Methods and Assumptions (continued)

- Remaining Amortization Period – 28 years
- Asset Valuation method – 5-year smoothed market
- Inflation – 3.25%
- Salary increases, 4.00% including .75% wage inflation.
- Investment rate of return – 7.50%

The rates of mortality for the period after service retirement are according to the RP-2000 Combined Mortality Table with Scale BB to 2013.

The target asset allocation and best estimates of arithmetic real rate of return for each major asset class, as provided by CERS's investment consultant, are summarized as follows:

<u>Asset Class</u>	Target <u>Allocation</u>	Long-term Expected Nominal <u>Return</u>
Combined Equity	44.0%	5.40%
Combined Fixed Income	19.0%	1.50%
Real Return (Diversified Inflation Strategies)	10.0%	3.50%
Real Estate	5.0%	4.50%
Absolute Return (Diversified Hedge Funds)	10.0%	4.25%
Private Equity	10.0%	8.50%
Cash Equivalent	2.0%	-0.25%
	100.0%	

Discount Rate – The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.75%. The long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Deferred inflows and outflows and pension expense include only certain categories of deferred outflows of resources and deferred inflows of resources. These include differences between expected and actual experience, changes of assumptions and differences between projected and actual earnings on plan investments. The schedule does not include deferred outflows/inflows of resources for changes in the employer's proportionate share of contributions or employer contributions made subsequent to the measurement date. The net pension liability is based on the June 30, 2015 actuarial valuations. Deferred outflows and inflows related to differences between projected and actual earnings on plan investments are netted and amortized over a five year period.

The following presents the District's proportionate share of net pension liability calculated using the discount rate of 7.50% as well as the District's share if calculated using a rate 1% higher and 1% lower:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
District's proportionate share of net pension liability	\$ 5,245,235	\$ 4,175,700	\$ 3,293,041

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued CERS financial report which is publically available at <https://kyret.ky.gov>.

There were no payables to the pension plan at June 30, 2016.

NOTE H – CONTINGENCIES AND COMMITMENTS

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor’s review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District’s grant programs is predicated upon the grantors’ satisfaction that the funds provided are being spent as intended and the grantors’ intent to continue their programs.

The District was notified Kentucky School Board Insurance Trust dissolved during the past fiscal year. As a result, assessments have been proposed to be passed to local participating Districts based on past premiums or past claims. The District’s liability is \$629,945 to be paid in ten installments beginning September 1, 2015. This option calls for financing interest at 3.25%. Management will either fund the liability through its General account or request funds from its SEEK Capital Outlay allotment.

NOTE I– INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated including worker’s compensation insurance.

NOTE J – LITIGATION

The District is subject to legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate a material effect on the combined financial statements as a result of threatened, pending or ongoing litigation.

NOTE K – RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Insurance for worker’s compensation, errors and omissions, educator’s legal liability, property (including vehicles) and general liability is carried through various agencies. Contributions to Workers’ Compensation Insurance are based on premium rates established with the excess insurance carrier, subject to claims, experience modifications and a group discount amount. The District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE L – DEFICIT OPERATING/FUND BALANCES

The following individual funds had deficit balances at June 30, 2016:

NONE

The following individual funds had operating expenditures in excess of revenues at June 30, 2016:

General Fund	233,423
Mountain View Activity Fund	4,157
Stinnett Activity Fund	2,696

NOTE M – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school District at risk for a substantial loss (contingency).

NOTE N – TRANSFER OF FUNDS

The following transfers were made during the year.

<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Capital Outlay Fund	General Fund	Operating expenditures	25,920
FSPK Building Fund	General Fund	Operating expenditures	60,562
General Fund	Special Revenue Fund	Technology match	36,403
Capital Outlay Fund	Debt Service Fund	Debt service	126,038
Special Revenue Fund	General Fund	Zero out project inactive funds	14,355
Special Revenue Fund	Special Revenue Fund	Intrafund transfers	4,059
FSPK Building Fund	Debt Service Fund	Debt service	1,073,569
Food Service Fund	General Fund	Indirect costs	68,846
Special Revenue Fund	Construction Fund	Construction expenditures	125,000
General Fund	Construction Fund	Construction expenditures	<u>203,000</u>
			<u>1,737,752</u>

NOTE O – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2016 were as follows:

None

LESLIE COUNTY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)

June 30, 2016

NOTE P – ON-BEHALF PAYMENTS

Teacher's Retirement	1,094,254
Health Insurance	1,950,510
Life Insurance	3,271
Administrative Fees	23,947
HRA/Dental/Vision	90,212
Less: Federal Reimbursement	(235,060)
Technology	49,246
Debt Service	<u>704,889</u>
<u>Sub-Total</u>	3,681,269
Allocated to Debt Service Fund	(704,889)
Allocated to Food Service Fund	<u>(136,525)</u>
Allocated to General Fund	<u><u>2,839,855</u></u>

NOTE Q – FUND BALANCE CLASSIFICATIONS

The District implemented Governmental Accounting Standards Board No. 54, Fund Balance Reporting and Governmental Fund Type Definitions effective for the fiscal year ended June 30, 2011. This standard clarifies existing governmental fund type definitions and establishes fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Classifications will include *nonspendable*, examples being prepaid items and inventory, and the following spendable fund balances – *restricted* – fund balances that are constrained by external parties, constitutional provisions or enabling legislation, *committed* – fund balances that contain self-imposed constraints of the government from its highest level of decision making authority, *assigned* – fund balances that contain self-imposed constraints of the government to be used for a particular purpose and *unassigned* – fund balance of the general fund that is not constrained for any particular purpose. The standard affects fund balance reporting only and not affect government-wide or proprietary fund financial statements.

The following schedule reflects governmental fund balances at June 30, 2016:

Fund Balances	<u>General Fund</u>	<u>Construction Fund</u>	<u>Other Funds</u>	<u>Total</u>
Restricted - sick leave	25,765	-	-	25,765
Restricted - other	-	195,621	5,963	201,584
Assigned fund balance	28,312	-	-	28,312
Unassigned fund balance	<u>958,625</u>	<u>-</u>	<u>-</u>	<u>958,625</u>
<u>Total fund balances</u>	<u>1,012,702</u>	<u>195,621</u>	<u>5,963</u>	<u>1,214,286</u>

The District's budget by State law must have a minimum 2% contingency. However, a separate contingency reserve fund has not been established. The Statement of Net Position reflects reserves for fixed assets and school food service inventory.

LESLIE COUNTY SCHOOL DISTRICTNOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)June 30, 2016NOTE R – BEGINNING NET POSITION RESTATED

The District reclassified beginning position in its government wide financial statements allocating \$326,062 from its government wide balance to business type balance relative to GASB 68 liabilities and deferrals.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE
IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND

For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>			<u>Variance Favorable (Unfavorable)</u>
Revenues:	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
From local sources:				
Taxes	3,005,861	3,238,887	3,143,441	(95,446)
Earnings on investments	6,000	6,000	11,553	5,553
Other local revenue	82,000	87,000	37,280	(49,720)
Intergovernmental - state	7,827,845	10,898,541	10,676,989	(221,552)
Intergovernmental - indirect federal	25,000	25,000	35,270	10,270
<u>Total revenues</u>	<u>10,946,706</u>	<u>14,255,428</u>	<u>13,904,533</u>	<u>(350,895)</u>
Expenditures:				
Instructional	5,498,996	7,449,638	7,467,245	(17,607)
Student support services	723,526	969,852	901,516	68,336
Staff support services	552,727	695,903	713,213	(17,310)
District administration	299,799	343,456	423,803	(80,347)
School administration	725,747	931,455	910,217	21,238
Business support	141,086	225,686	214,435	11,251
Plant operations and maintenance	1,573,617	1,781,668	1,719,499	62,169
Student transportation	1,170,417	1,427,749	1,497,341	(69,592)
Community service activities	5,788	7,646	4,954	2,692
Employee benefits	76,203	76,203	118,581	(42,378)
Debt service	175,836	179,049	167,152	11,897
Contingency	529,834	1,294,428	-	1,294,428
<u>Total expenditures</u>	<u>11,473,576</u>	<u>15,382,733</u>	<u>14,137,956</u>	<u>1,244,777</u>
Excess (deficit) of revenues over expenditures	<u>(526,870)</u>	<u>(1,127,305)</u>	<u>(233,423)</u>	<u>893,882</u>
Other financing sources (uses):				
Bond proceeds and other debt financing	-	-	182,770	182,770
Operating transfers in	71,000	71,000	169,683	98,683
Operating transfers out	(45,630)	(45,630)	(239,403)	(193,773)
Gain (loss) on sale of assets	1,500	1,500	6,875	5,375
<u>Total other financing sources (uses)</u>	<u>26,870</u>	<u>26,870</u>	<u>119,925</u>	<u>93,055</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	<u>(500,000)</u>	<u>(1,100,435)</u>	<u>(113,498)</u>	<u>986,937</u>
Fund balance - July 1, 2015	<u>500,000</u>	<u>1,100,435</u>	<u>1,100,435</u>	<u>-</u>
Fund balance - June 30, 2016	<u>-</u>	<u>-</u>	<u>986,937</u>	<u>986,937</u>

Notes:

Actual fund balance at July 1, 2015 excludes \$25,765 committed for sick leave.

Actual state revenue and expenditures for the year end includes \$2,839,855 in State on-behalf payments.

See notes to financial statements and Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL – SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2016

	<u>Budgeted Amounts</u>			Variance Favorable
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Unfavorable)</u>
Revenues:				
Revenues from local sources	-	149,304	283,134	133,830
Intergovernmental - state	1,130,455	1,134,524	978,137	(156,387)
Intergovernmental - indirect federal	1,989,623	2,208,548	2,345,189	136,641
<u>Total revenues</u>	<u>3,120,078</u>	<u>3,492,376</u>	<u>3,606,460</u>	<u>114,084</u>
Expenditures:				
Instructional	2,249,873	2,436,508	2,730,234	(293,726)
Student support services	79,522	79,522	4,500	75,022
Staff support services	289,459	351,492	236,091	115,401
Business support services	66,000	66,000	53,612	12,388
Plant operations and maintenance	111,730	192,862	136,657	56,205
Student transportation	167,097	194,588	115,107	79,481
Community service activities	202,027	217,034	224,940	(7,906)
Other	-	-	2,368	(2,368)
<u>Total expenditures</u>	<u>3,165,708</u>	<u>3,538,006</u>	<u>3,503,509</u>	<u>34,497</u>
Excess (deficit) of revenues over expenditures	<u>(45,630)</u>	<u>(45,630)</u>	<u>102,951</u>	<u>148,581</u>
Other financing sources (uses):				
Operating transfers in	76,850	76,850	40,463	(36,387)
Operating transfers out	<u>(31,220)</u>	<u>(31,220)</u>	<u>(143,414)</u>	<u>(112,194)</u>
<u>Total other financing sources (uses)</u>	<u>45,630</u>	<u>45,630</u>	<u>(102,951)</u>	<u>(148,581)</u>
Excess (deficit) of revenue and other financing sources over expenditures/other financing uses	-	-	-	-
Fund balance - July 1, 2015	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance - June 30, 2016	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>-</u></u>

See notes to financial statements and Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULES OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
AND SCHEDULES OF EMPLOYER CONTRIBUTIONSFor the Year Ended June 30, 2016**Employer's Proportionate Share of Net Pension Liability**

	<u>2016</u>		<u>2015</u>	
	<u>KTRS</u>	<u>CERS</u>	<u>KTRS</u>	<u>CERS</u>
Employer's proportion of the net pension liability	0.2274%	0.0971%	0.2768%	0.0943%
Employer's proportionate share of the net pension liability	-	4,175,700	-	3,061,000
State's proportionate share of the net pension liability	52,910,151	-	56,888,839	-
Employer's covered employee payroll	8,589,419	2,801,591	8,330,224	2,204,566
Employer's proportionate share of the net pension liability as a percentage of its covered employee payroll	616%	149%	683%	139%
Plan fiduciary net position as a percentage of the total pension liability	42.5%	60.0%	45.6%	66.8%

Employer's Contributions

	<u>2016</u>		<u>2015</u>	
	<u>KTRS</u>	<u>CERS</u>	<u>KTRS</u>	<u>CERS</u>
Contractually required contribution	1,094,254	289,967	1,738,553	408,862
Contributions in relation to the contractually required contribution	1,094,254	288,908	1,738,553	408,862
Contribution deficiency (excess)	-	1,059	-	-
District's covered employee payroll	8,589,419	2,801,591	8,330,224	2,204,566
Contributions as a percentage of covered employee payroll	12.74%	10.31%	20.87%	18.55%

Change of benefit terms - None.

Changes of assumptions - CERS change in 2016, \$421,074.

See notes to financial statements and Independent Auditors' Report.

LESLIE COUNTY SCHOOL DISTRICTBALANCE SHEET – NONMAJOR SPECIAL REVENUE FUNDAt June 30, 2016

	<u>District Activity Fund</u>
Asset and resources:	
Cash and cash equivalents	9,478
Accounts receivable	<u>-</u>
Total Assets	<u><u>9,478</u></u>
Liabilities and fund balances:	
- Liabilities -	
Accounts payable	<u>3,515</u>
Total Liabilities	<u>3,515</u>
- Fund balances -	
Restricted - other	<u>5,963</u>
Total fund balances	<u>5,963</u>
Total liabilities and fund balances	<u><u>9,478</u></u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – NONMAJOR SPECIAL REVENUE FUNDAt June 30, 2016

	<u>District Activity Fund</u>
Revenues:	
From local sources:	
Student activities	<u>5,549</u>
<u>Total revenues</u>	<u>5,549</u>
Expenditures:	
Instruction	12,754
Instructional staff support	<u>1,672</u>
<u>Total expenditures</u>	<u>14,426</u>
Excess (deficit) of revenues over expenditures	<u>(8,877)</u>
Other financing sources (uses):	
Operating transfers in	-
Operating transfers out	<u>-</u>
<u>Total other financing sources (uses)</u>	<u>-</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(8,877)</u>
Fund balance, July 1, 2015	<u>14,840</u>
Fund balance, June 30, 2016	<u><u>5,963</u></u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTCOMBINING BALANCE SHEET – OTHER NONMAJOR GOVERNMENTAL FUNDSFor the Year Ended June 30, 2016

	SEEK Capital <u>Outlay Fund</u>	Building <u>Fund</u>	<u>Total</u>
Asset and resources:			
Cash and cash equivalents	-	-	-
Accounts receivable	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total assets and resources	<u> </u> <u> </u>	<u> </u> <u> </u>	<u> </u> <u> </u>
Liabilities and fund balances:			
Accounts payable	-	-	-
	<u> </u>	<u> </u>	<u> </u>
- Fund balances -			
Restricted for future construction	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u> </u> <u> </u>	<u> </u> <u> </u>	<u> </u> <u> </u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – OTHER NONMAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2016

	SEEK Capital Outlay <u>Fund</u>	FSPK Building <u>Fund</u>	<u>Total</u>
Revenues:			
From local sources:			
General real property tax	-	540,934	540,934
Intergovernmental - State	<u>151,958</u>	<u>593,197</u>	<u>745,155</u>
 <u>Total revenues</u>	 <u>151,958</u>	 <u>1,134,131</u>	 <u>1,286,089</u>
 Expenditures:			
Building improvements/capital outlay	-	-	-
Bond principal and escrow	-	-	-
Bond interest	<u>-</u>	<u>-</u>	<u>-</u>
 <u>Total expenditures</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>
 Excess (deficit) of revenues over expenditures	 <u>151,958</u>	 <u>1,134,131</u>	 <u>1,286,089</u>
 Other financing sources (uses):			
KISTA lease financing	-	-	-
Operating transfers in	-	-	-
Operating transfers out	<u>(151,958)</u>	<u>(1,134,131)</u>	<u>(1,286,089)</u>
 <u>Total other financing sources (u</u>	 <u>(151,958)</u>	 <u>(1,134,131)</u>	 <u>(1,286,089)</u>
 Changes in fund balance	 -	 -	 -
 Fund balance, July 1, 2015	 <u>-</u>	 <u>-</u>	 <u>-</u>
 Fund balance, June 30, 2016	 <u><u>-</u></u>	 <u><u>-</u></u>	 <u><u>-</u></u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCELESLIE COUNTY HIGH SCHOOL ACTIVITY FUNDFor the Year Ended June 30, 2016

<u>Fund Accounts</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Excess (Deficit) of Revenues over Expenditures</u>	<u>Fund Balance July 1, 2015</u>	<u>Fund Balance June 30, 2016</u>
General Fund	9,762	9,101	661	463	1,124
Parking	200	1,095	(895)	956	61
Teacher Vending	5,482	4,657	825	792	1,617
National Honor Society	1,225	1,800	(575)	706	131
Art	500	-	500	46	546
Drama Club	1,404	1,850	(446)	867	421
Archery	2,512	2,679	(167)	1,569	1,402
Student Council	256	-	256	70	326
Greenhouse	1,050	672	378	-	378
Create	500	100	400	-	400
Extracurricular	75,975	69,321	6,654	3,775	10,429
Emergency Extracur	3,350	3,275	75	7,051	7,126
Academics	1,581	1,603	(22)	1,391	1,369
Band	6,381	6,417	(36)	258	222
Baseball	6,361	4,848	1,513	1,328	2,841
Boys Basketball	16,687	14,941	1,746	3,960	5,706
Football	15,724	16,940	(1,216)	2,405	1,189
Cheerleaders	8,654	8,886	(232)	272	40
Girls Basketball	20,151	14,906	5,245	17	5,262
Softball	2,254	2,794	(540)	3,539	2,999
Track	6,670	9,243	(2,573)	2,585	12
Volleyball	11,542	8,766	2,776	2,728	5,504
Cross Country	1,084	2,238	(1,154)	1,297	143
Senior Class	61,766	61,766	-	-	-
Junior Class	6,945	6,514	431	3,075	3,506
Sophomore Class	611	-	611	-	611
Freshman Class	-	611	(611)	611	-
Journalism	10,000	993	9,007	1,925	10,932
Project Sober	1,528	2,487	(959)	1,709	750
Children Inc	196	-	196	-	196
<u>Sub-total</u>	280,351	258,503	21,848	43,395	65,243
Less: Interfund transfers	15,267	15,267	-	-	-
<u>Total</u>	<u>265,084</u>	<u>243,236</u>	<u>21,848</u>	<u>43,395</u>	<u>65,243</u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTCOMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCEOTHER SCHOOL ACTIVITY FUNDSFor the Year Ended June 30, 2016

	<u>Hayes Lewis Elementary</u>	<u>Mountain View Elementary</u>	<u>Stinnett Elementary</u>	<u>W.B. Muncy Elementary</u>	<u>Total (Memorandum Only)</u>
<u>REVENUES:</u>					
Activity funds	68,165	97,545	51,891	45,985	263,586
<u>EXPENDITURES:</u>					
Activity funds	<u>64,906</u>	<u>96,533</u>	<u>54,587</u>	<u>44,629</u>	<u>260,655</u>
Excess or (deficiency) of revenues over <u>expenditures</u>	3,259	1,012	(2,696)	1,356	2,931
Fund Balance July 1, 2015	<u>17,708</u>	<u>24,486</u>	<u>28,485</u>	<u>8,715</u>	<u>79,394</u>
Fund Balance, June 30, 2016	<u><u>20,967</u></u>	<u><u>25,498</u></u>	<u><u>25,789</u></u>	<u><u>10,071</u></u>	<u><u>82,325</u></u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDSFor the Year Ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Passthrough to Subrecipients</u>	<u>Program Expenditures</u>
<u>U. S. Department of Agriculture</u>				
Passed through State Department of Education:				
- Child Nutrition Cluster -				
School Breakfast Program	10.553	7760005	N/A	<u>295,909</u>
School Lunch Program	10.555	7750002	N/A	<u>749,287</u>
Summer Food Service Program for Children	10.559	7690024	N/A	916
	10.559	7740023	N/A	<u>8,897</u>
				<u>9,813</u>
Passed through State Department of Agriculture:				
School Lunch Program Commodities (non-cash assistance)	10.555	066-0100	N/A	<u>69,133</u>
Total Child Nutrition Cluster				<u>1,124,142</u>
Passed through State Department of Education:				
State Administrative Expenses for Child Nutrition	10.560	7700001	N/A	<u>2,578</u>
Passed through Leslie County Fiscal Court				
Schools and Roads Grant to States	10.665	505X	N/A	<u>38,010</u>
<u>Total U.S. Department of Agriculture</u>				<u>1,164,730</u>
<u>U. S. Department of Commerce</u>				
Direct				
(PRIDE) Byrne Discretionary Program	11.420	271B	N/A	500
	11.420	271BL	N/A	<u>500</u>
<u>Total U.S. Department of Commerce</u>				<u>1,000</u>
<u>U. S. Department of Education</u>				
Passed through State Department of Education:				
- Title I				
	84.010	310B	N/A	728,106
	84.010	3104M	N/A	5,167
	84.010	310A	N/A	90,057
	84.010	310AM	N/A	5,891
	84.010	320AE	N/A	8,356
	84.010	3204E	N/A	4,763
	84.010	320BE	N/A	<u>232,702</u>
<u>Total Title I</u>				<u>1,075,042</u>

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Passthrough to Subrecipients</u>	<u>Program Expenditures</u>
-Special Education Cluster -				
IDEA - B Basic	84.027	3372	N/A	44
	84.027	337A	N/A	379,818
	84.027	337B	N/A	190,268
Special Education - Preschool	84.173	33B	N/A	19,610
Total - Special Education Cluster				589,740
Rural/Low Income School Program	84.358	350A	N/A	2,538
	84.358	350B	N/A	25,888
				28,426
Improving Teacher Quality State Grants	84.367	401A	N/A	3,040
	84.367	401B	N/A	193,647
				196,687
Passed through Berea College:				
Gear Up	84.334A	379BG	N/A	126,964
	84.334A	379AG	N/A	4,859
				131,823
- Direct -				
21st Century Learning Centers	84.287A	550A	N/A	61,231
	84.287A	5504	N/A	15,888
	84.287A	5504T	N/A	25,818
	84.287A	550AM	N/A	117,908
	84.287A	550AU	N/A	7,981
	84.287A	5504X	N/A	49,561
	84.287A	550AX	N/A	27,632
	84.287A	5504J	N/A	2,566
				308,585
<u>Total Department of Education</u>				2,330,303
<u>Total Federal Awards Expended</u>				3,496,033

See Independent Auditor's Report.

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)For the Year Ended June 30, 2016

Note 1—Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of Leslie County School District, under programs of the federal government for the year ended June 30, 2016 in accordance with the requirements of Title 2 U.S. code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Leslie County School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Leslie County School District.

Note 2—Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance*, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Leslie County School District has not elected to use the 10 percent de minimus indirect cost rate as allowed under Uniform Guidance.

*Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87 Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

Note 3 – Non-Monetary Assistance

Non-monetary assistance CFDA #10.555, \$69,133, is reported in the schedule at the fair value of the food donations disbursed.

See Independent Auditor's Report.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

State Committee for School District Audits
Members of Leslie County Board of Education
Hyden, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the State Committee for School District Audits in the Kentucky Public School Districts Audit Contract Requirements, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Leslie County School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Leslie County School District's basic financial statements, and have issued our report thereon dated November 1, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Leslie County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Leslie County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Leslie County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

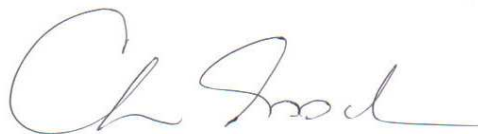
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Leslie County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Leslie County School District, in a separate letter dated November 1, 2016. In addition, the results of our tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Kentucky Public School District's Audit Contract and Requirements – State Compliance Requirements.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink, appearing to read "Chris Gooch".

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 1, 2016

Chris Gooch
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

To Board Members
Leslie County School District

Report on Compliance for Each Major Federal Program

We have audited Leslie County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Leslie County School District's major federal programs for the year ended June 30, 2016. Leslie County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Leslie County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Leslie County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Leslie County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Leslie County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of Leslie County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Leslie County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Leslie County School District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink, appearing to read "Chris Gooch".

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 1, 2016

LESLIE COUNTY SCHOOL DISTRICTSUMMARY SCHEDULE OF PRIOR AUDIT FINDINGSFor the Year Ended June 30, 2016

- FINDINGS RELATED TO THE FINANCIAL STATEMENTS -

None

- FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS -

None

LESLIE COUNTY SCHOOL DISTRICTSCHEDULE OF FINDINGS AND QUESTIONED COSTSFor the Year Ended June 30, 2016- SUMMARY OF AUDIT RESULTS -

1. We have issued an unmodified opinion on the financial statements.
2. No material weakness or significant deficiency not identified as a material weakness was disclosed by the audit of the financial statements.
3. No material noncompliance was disclosed in our audit of the financial statements.
4. No material weakness or significant deficiency not identified as a material weakness was disclosed by the audit in internal control over major programs.
5. We have issued an unmodified opinion on compliance for major programs.
6. The audit did not disclose any audit findings which we are required to report under section 200.516 of Title 2 U.S. Code of Federal Regulations Part 200.
7. Leslie County School District had the following major programs:
 - U. S. Department of Education
 - Passed through State Department of Education -
Title I, CFDA number 84.010
 - U.S. Department of Agriculture
 - Passed through State Departments of Education and Agriculture -
- Child Nutrition Cluster -
School Lunch and Breakfast Program, Summer Food Service
CFDA numbers 10.553, 10.555 and 10.559
8. The dollar threshold used to distinguish between major and non-major programs was \$750,000.
9. The auditee did not qualify as a low-risk auditee under section 200.520 of Title 2 U.S. Code of Federal Regulations Part 200.

Findings Related to the Financial Statements

– NONE –

Findings and Questioned Costs for Federal Awards

– NONE –

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Leslie County Board of Education
Hyden, Kentucky

In planning and performing our audit of the financial statements of Leslie County School District for the year ended June 30, 2016, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operation efficiency. The memorandum that accompanies this letter summarized our comments and suggestions regarding those matters. A separate report dated November 1, 2016, contains our report on the District's internal control structure. This letter does not affect our report dated November 1, 2016 on the financial statements of the Leslie County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

A handwritten signature in blue ink, appearing to read "Chris Gooch", written in a cursive style.

Chris Gooch
Certified Public Accountant

Hazard, Kentucky

November 1, 2016

LESLIE COUNTY SCHOOL DISTRICTMANAGEMENT LETTER COMMENTSFor the Year Ended June 30, 2016**Prior Year Comments**

1. Management should be cognizant of accounting and reporting requirements relating to activity fund expenditures designated as instructional in nature.
 - *Management has conducted training with applicable school personnel to assure consistent understanding for designating expenditures at either the activity fund or instructional level.*
2. Management should review travel policies regarding gratuities and time limitation for reimbursing travel related expenses to assure District wide consistency.
 - *Management has provided memorandum to District personnel to assure consistent understanding in this area.*

Current Year Comments

1. The District should assure concession sales are accompanied by prescribed reconciliation forms allowing controls over inventory purchases and assessment of profits.